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Viewing cable 05ALMATY1434, CHINESE DEMAND CASPIAN OFFSHORE BLOC FOR GAS

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Reference ID	Created	Released	Classification	Origin
05ALMATY1434	2005-04-12 11:59	2011-08-30 01:44	CONFIDENTIAL	US Office Almaty

Appears in these articles:

<http://kaztag.kz/ru/news/50584>

This record is a partial extract of the original cable. The full text of the original cable is not available.

C O N F I D E N T I A L ALMATY 001434

SIPDIS

DEPT FOR EB/ESC (JONES), EUR/SNEC, EUR/CACEN (MUDGE)

E.O. 12958: DECL: 04/06/2010

TAGS: [ENRG](#) [CH](#) [KZ](#) [ECONOMIC](#)

SUBJECT: CHINESE DEMAND CASPIAN OFFSHORE BLOC FOR GAS PIPELINE

REF: A. ALMATY 1121

[1](#)B. STATE 61018

Classified By: Ambassador John Ordway for reasons 1.4 (b) and (d).

[1](#)1. (C) Summary: The Director of the Kazakhstani Institute of Oil and Gas (KIOG), Serik Burkitbayev, reported that China is demanding an offshore Caspian bloc as quid-pro-quo for support of a natural gas pipeline to China. That pipeline, to be built in stages, will initially transport Turkmen and Uzbek gas, then Western Kazakhstani. KIOG is seeking the services of a U.S. consulting company to develop the project. Burkitbayev also voiced growing Kazakhstani displeasure with China over the Atasu-Alanshankou oil pipeline. End Summary.

[1](#)2. (C) Serik Burkitbayev, director of the Kazakhstani Institute of Oil and Gas (KIOG), accompanied former National Security Adviser Robert McFarlane, chairman of Energy and Communications Solutions LLC, in an April 5 meeting with Ambassador Ordway (See Paragraph 9 for Burkitbayev Background). KIOG is part of Kazmunaigas (KMG), the integrated state producer.

[1](#)3. (C) McFarlane sought the meeting to discuss providing consulting services to KIOG. He said he had been acquainted with Burkitbayev for over ten years. McFarlane left the meeting for Astana to meet with KMG Vice-President and presidential son-in-law, Timur Kulibayev, among others. He planned no meetings with officials from the Ministry of Energy, to which KMG is subordinated. According to Burkitbayev, "Kulibayev can handle everything."

14. (C) Burkitbayev announced that China is demanding an offshore Caspian bloc in exchange for supporting a Kazakhstani proposal to build a natural gas pipeline to China. He bluntly warned that, "No bloc, no gas pipeline." He added that both sides want to announce the deal when the Chinese president visits Astana in July on the occasion of Nazarbayev's 65th birthday.

15. (C) Burkitbayev sketched out an initial route and a disputed second stage. Initially, the Kazakhstanis will lay 500 km of pipe to link Almaty with the Chinese border town of Khorgaz. That connection will provide about 5-7 bcm of Uzbek and Turkmen gas through an already existing network. A follow-on stage will bring Western Kazakhstani gas, either north along side the Atasu-Alashankou oil pipe (Chinese plan) or south via Shymkent (Kazakhstani preference). He stressed the need to reduce energy dependence on Uzbekistan and Turkmenistan by bringing Kazakhstani gas to energy hungry southern Kazakhstan, where 50% of the population resides. Pending resolution of political uncertainties in Bishkek, about 70 km of pipe will be diverted out of Kyrgyzstan. Ultimate capacity could reach 30 bcm by 2020, with 8-10 bcm hoped for by 2008. The entire project could cost \$3-4bn.

16. (C) Burkitbayev was optimistic, though unclear, where volumes would be found. He said that that the Uzbeks and the Turkmen were against supplying gas to China, though some Lukoil fields in Uzbekistan may contribute. Major Kazakhstani production has still not come on line; much of that, anyway, such as Kashagan, will be reinjected. He ventured that many offshore blocs in the Central Caspian were gas fields and would serve as a possible source. (Comment: If straight gas, they will not be developed without a pipeline. End Comment).

Chinese-Kazakhstani Hydrocarbon Friction?

17. (C) Burkitbayev griped that it was "difficult" to work with the Chinese. Referring to the Atasu-Alashankou oil pipeline, he added that, "the government is not happy, the oil companies are not happy." He hinted that the GOK lost a large degree of control when it agreed to let the Chinese finance and fill the pipeline. He also said that other export routes-CPC, BTC, and even the Russian pipeline system--might have been better options financially: "It (Chinese oil pipeline) is not a good deal for us."

18. (C) Comment: China has been on a hydrocarbon buying spree in Kazakhstan. Nevertheless, it has only managed to acquire small and medium size assets. It desperately wants a big oil project after being thwarted in a 2003 bid to acquire 16.67% of the mammoth Kashagan project. After coming up dry on Kashagan, the Chinese will, most likely, not relent on their quid-pro-quo demand for an off-shore bloc. Given Kazakhstani preferences to work big off-shore blocs with a Western major, that may result in delays for the gas pipeline. End Comment.

Burkitbayev Backgrounder

19. (C) Backgrounder: Burkitbayev is currently embroiled in a commercial dispute with U.S. firm Byelocorp Scientific Inc. (BSI) over control of defense conversion success-story Byelkamit JV, JSC in Almaty (reftels). After agreeing to pay BSI \$5.5 million for their 65.5% stake in Byelkamit, which was converted from a weapons manufacturer to a supplier of high-end equipment for the oil and gas industry, the three firms, acting on Burkitbayev's behalf, managed to gain control of the shares without paying BSI the agreed price. The Ambassador took the opportunity after the meeting to alert McFarlane, in a private pull-aside, to the fact that his prospective business partner was involved in a matter that had the potential to become public soon, and negatively reflect on Burkitbayev and KIOG.